

Message Text

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PAGE 01 KUWAIT 04877 150526Z

21

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C O N F I D E N T I A L KUWAIT 4877

FROM PAGANELLI EMBASSY DOHA

DEPT PASS TREASURY FROM SCHOTTA FOR BENNETT, COOPER AND PARSKY

EO 11652: GDS

TAGS: ENRG QA

SUBJ: DIALOGUE ON ENERGY: TREASURY REPS VISIT TO QATAR

1. US TREASURY REPRESENTATIVES CHOTTA, TOSINI AND WALLER MET WITH ABD AL QADIR AL QADI, DIRECTOR OF FINANCE; DR TAHIR HADIDI, ADVISOR TO MIN PETROLEUM AND FINANCE; DR MUSTAFA HASSAN, ECONOMIC/FINANCIAL ADVISOR TO AMIR; MR MIDHAT ABDUL LATIF, EXEC ASST TO MIN FIN AND PETROLEUM; MR ABDULLAH SALLAT, DIRECTOR OF PETROLEUM AFFAIRS; AND MU'IM BADAWI, ECONOMIC ADVISOR TO THE MINISTER OF FINANCE AND PETROLEUM, ON NOV 3 AND 4. IN ADDITION, A LUNCH HOSTED BY AMBASSADOR, A DINNER HOSTED BY GOQ WAS HELD. EACH SESSION WAS APPROXIMATELY 3 HRS IN LENGTH, WAS EXTREMELY FRANK AS WELL AS PRODUCTIVE OF UNDERSTANDING OF ISSUES ADVANCED BY BOTH SIDES.

2. QATARIS WERE INTERESTED IN STUDY RELATING OPEC PRICES TO INDUSTRIAL COUNTRY PRICES, BUT INDICATED RESULTS WERE DIFFERENT
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PAGE 02 KUWAIT 04877 150526Z

FROM THEIR OWN STUDIES. THEY SEEMED INTERESTED IN STUDY OF IMPACT

OF OIL PRICE INCREASES ON WPIS OF MAJOR CONSUMING COUNTRIES, BUT APPEARED TO FEEL THAT THESE EFFECTS WERE REALLY MINIMAL WHEN CONSIDERED AGAINST BACKGROUND OF OTHER INFLATIONARY FORCES OPERATING IN THE DEVELOPED WORLD. SINCE IMPACT ON INFLATION WAS TO BE ONLY FOR DURATION UNTIL PRICES WORKED THROUGH ECONOMIES OF OIL CONSUMING COUNTRIES, AND WOULD BE LIMITED TO EFFECT ON INFLATION OF BASE PRICE LEVELS 8 TO 9 PERCENT HIGHER THAN WOULD HAVE BEEN THE CASE, THEY DID NOT SEE THE PROBLEM. THEY WERE INTERESTED IN HEARING WHAT PRICE INCREASES WOULD DO TO REAL GNP GROWTH RATES IN DEVELOPED WORLD, AS WELL AS EFFECT ON GROWTH RATES IN THE DEVELOPING COUNTRIES. WE PROMISED THAT WE WERE LOOKING INTO THIS AND WOULD HOPE TO HAVE RESULTS TO DISCUSS WITH THEM AT SOME LATER TIME.

3. QATARIS STRESSED THE CONSERVATION ASPECT OF THEIR PRICE POLICY SAYING IT WAS GOOD FOR THE ENERGY WASTING NATIONS. THEY ALSO STRESSED THE RIGHTING OF PAST WRONG PRICES AS A JUSTIFICATION FOR CURRENT LEVELS. THEY STRESSED THAT WE SEEMED TO BE TALKING PRIMARILY ABOUT WHAT EFFECT OIL PRICE INCREASES MIGHT BE HAVING ON ECONOMIES OF RICH INDUSTRIALIZED NATIONS AND WANTED TO KNOW IF WE HAD LOOKED AT EFFECT ON THEIR FORMERLY POOR (THEIR CHARACTERIZATION) ECONOMY. SOME HEAT WAS ATTACHED TO THIS QUERY.

4. THIS BROUGHT DISCUSSIONS TO TOPIC OF SELF INTEREST PRICING FOR OPEC. TECHNICAL DETAIL OF STUDIES APPEARED UNDERSTOOD BY BADAWI AND TO A LESSER EXTENT BY HADIDI. SOME INTEREST AND DISCUSSION SURROUNDING THE PRESENT VALUE OPPORTUNITY COST WHICH WAS APPROPRIATE AS WELL AS ISSUE OF REASONABLE ELASTICITIES. BADAWI FELT THAT SHORT RUN DEMAND ELASTICITY WAS $-.2$ OR EVEN SLIGHTLY LOWER AND DID NOT OBJECT TO SHORT RUN SUPPLY ELASTICITY OF $.2$. NEITHER BADAWI NOR HADIDI OBJECTED TO LONG RUN DEMAND ON NON-OPEC SUPPLY ELASTICITIES OF $-.4$ AND $.3$ RESPECTIVELY AND APPEARED TO FEEL THAT THEY COULD BE EVEN HIGHER.

5. QATARIS APPEARED TO FEEL THAT OIL IS THEIR ONLY CHANCE FOR A PROSPEROUS FUTURE AND SEEM EARNESTLY DETERMINED NOT TO LET IT SLIP THROUGH THEIR FINGERS. THEY REACTED STRONGLY TO CHARACTERIZATION OF OPEC AS A CARTEL WHICH APPROXIMATED A MONOPOLY. HOWEVER, THEY ADMITTED THAT IT WAS CAPABLE OF ADJUSTING PRODUCTION TO MAINTAIN CHOSEN PRICE LEVELS. APPEARED TO BE THOROUGHLY CONFIDENTIAL

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PAGE 03 KUWAIT 04877 150526Z

CONVINCED OF VALUE OF OPEC AS AN INSTRUMENTALITY FOR ASSURING THEMSELVES OF A "FAIR PRICE" FOR THEIR OIL. SAID THAT THEY WELCOMED THE DEVELOPMENT OF ALTERNATIVE OIL AND ALTERNATIVE ENERGY SOURCES IN THE INTERESTS OF CONSERVATION. DID NOT REALLY SEE THAT THIS WOULD HAVE THE EFFECT OF SHRINKING THEIR MARKETS OVER TIME SOLELY THROUGH MARKET FORCES WITH OUT CONSUMING GOVERNMENT POLICIES.

6. WHEN DISCUSSION TURNED TO REVENUES, QUESTION OF THEIR USE AROSE. QATATARIS INDICATEDSSUE OF INTERNAL VS EXTERNAL USE OF FUNDS NOT SETTLED. SOME QUESTION CONCERNING BEST WAY TO ASSURE LONG RUN INCOME FOR QATAR RAISED. PARTLY DEPENDS ON EXISTENCE OF SUITABLE INVESTMENT OPPORTUNITIES IN QATAR AND THIRD WORLD. ALSO

THE POSSIBILITY FOR PROPOSAL FOR JOINT EFFORT ALONG LINES US-SAUDI ARABIAN COMMISSION MIGHT BE GENUINELY HELPFUL. GENERAL LACK OF BELIEF ON QATARI PART CONCERNING FEASIBILITY OF BRINGING IN ALTERNATIVE ENERGY SOURCES VERY SOON AND MUCH BELOW CURRENT WORLD PRICE OF OIL. THEY TOOK OEP MATERIAL AND PROMISED TO GIVE IT CAREFUL PERUSAL.

7. AFTER EXPRESSION BY DR HADIDI THAT TALKS WERE USEFUL AND HELPFUL AND SHOULD BE CONTINUED, IT WAS AGREED THAT FOR THE PRESENT BILATERAL DISCUSSIONS SEEMED MOST APPROPRIATE. INVITATION EXTENDED TO HAVE TECHNICAL PEOPLE COME TO US TO VIEW ALTERNATIVE ENERGY PROJECTS AS WELL AS CONTINUE DISCUSSION OF SELF INTEREST PRICING AND IMPACT OF OIL PRICE INCREASES ON WORLD ECONOMY. INTEREST EXPRESSED IN EITHER THIS OR HAVING US REPS RETURN TO QATAR AFTER MATERIALS LEFT BEHIND WERE READ AND DIGESTED.

8. US TREASURY REPS ALSO MET WITH HUBERT CREPET, GEN MGR, SHELL/QATAR AND TOM HARRIS, ACTING GEN MGR QATAR PETROLEUM CO. BOTH WERE INFORMED IN GENERAL TERMS OF MISSION AND RESULTS SO FAR. THEY AGREED THAT TECHNICAL DISCUSSIONS MOST PROMISING AND REPRESENTED AN AVENUE OF APPROACH WHICH SHOULD BE CONTINUED. INFORMATION ON PRODUCTION LEVELS OF BOTH COMPANIES WAS PROVIDED OF 293 MMBD AND 225 MMBD RESPECTIVELY. THESE REPRESENTED 85 AND 75 PERCENT RESPECTIVELY OF PRODUCTIVE CAPACITY. PLANS ARE FOR ALL ASSOCIATED GAS PRODUCTION TO BE UTILIZED EITHER FOR LNG, PETROCHEMICALS, OR DIRECT ENERGY. CREPET ESTIMATED THAT NEW DRY GAS FIELDS IN THE SHELL CONCESSION COULD AMOUNT TO ROUGHLY CONFIDENTIAL

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PAGE 04 KUWAIT 04877 150526Z

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